MINISTRY OF FINANCE
ECONOMIC PLANNING AUTHORITY

THE NATIONAL ECONOMIC DEVELOPMENT PLAN
1971 – 1975

A SUMMARY

JERUSALEM, October 1971

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INTRODUCTION

The Economic Development Plan for 1971–1975 has been drawn up by the Economic Planning Authority, with the cooperation of the Government's various planning units.

In line with the Government decision of December, 1968, requiring the Planning Authority to draw up an economic program for 1971–1975, it first proposed to the Ministerial Committee for Economic Planning the macro-economic setting of the Plan, which was approved on 11.8.1969. This, together with detailed planning guidelines, was then circulated among the competent Government agencies as a basis for the comprehensive, detailed planning of the various economic sectors. By March, 1970, the Authority received the plans drawn up by the planning units of the Ministries of Agriculture, Commerce and Industry, Transport, Communications, Defence, Housing, and the Ministry of Finance, as well as by the National Insurance Institute and the Electric Corporation. Some Government authorities submitted their own detailed plans, as did the Ministries of Agriculture and of Commerce and Industry. Other plans were drawn up jointly by the Authority and the competent planning unit. The development plans for health and education, for instance, were compiled in this way, and in coordination with the Budget Division of the Ministry of Finance.

The various plans were then amalgamated and examination of the macro-economic implications of the integrated Plan made it possible to pinpoint the main problems facing the economy, which stood out with greater clarity than before.

It appeared that the import surplus for 1971–1975, according to the original projections, would be about 6 billion dollars, and that almost 2 billion dollars of capital imports were needed over and above the forecast amount. Israel's indebtedness would have come to about 6 billion dollars by the end of 1975. Moreover, the total investment in fixed assets, according to the combined plans, would have been over IL 27 billion (at 1969 prices).

Evidently, the macro-economic targets set by the Government would not be met by simply piecing the different plans together. They first had to be modified, especially as regards foreign trade and investments, so as to bring them in line with these targets without interfering with their internal consistency. The modifications were carried out under the guidance of the Authority in collaboration with the competent planning units. The current proposal represents the amended overall Plan.

The plan was submitted to the Government and was discussed thoroughly. It is about to be approved by the Committee of Economic Ministers.

The period covered is 1971–1975 and the starting point is 1970. Since the work was done throughout that year its economic variables had to be measured by autumn. Moreover, since 1970 constituted a turning point in view of the implementation of new Government measures in April and August to the course set in 1968 and 1969, the estimates for this year could at the most be regarded as benchmark figures.

This summary is presented on the basis of updated figures for 1970 at 1970 prices.

A preliminary examination, however, shows that this does not affect the lines of development and the policy measures proposed.

The economy's besetting problem is the high defence expenditure, both in local and in foreign currency. The Economic Development Plan, 1971 – 1975, constitutes an attempt to tackle this problem by creating conditions which will, in the long run, make Israel less dependent on foreign capital imports and reduce her defence burden. For both purposes it is essential that the relatively rapid growth be sustained. This will also help to attain two other, inter-connected targets: full employment and the intake of new immigrants.

The Plan is not so much concerned with predictions as with the systematic presentation of the measures which, if taken now, may lead the economy in the desired direction. It is not intended to give only a general forecast of future developments but to describe a set of quantified economic and social targets and the means for their attainment. Both targets and means are based on a set of given exogenous conditions.

The five-year period for which the Plan is designed is too short for any profound structural changes in production, employment and the like, which can come about only through the cumulative effect of investment and development over a longer period.

The figures given are designed to indicate the order of magnitude of the problems and challenges faced by the economy and the desired lines of development. Some of the estimates are based on assumptions as to the behavior and response pattern of the private sector. The industrial development envisaged, for instance, depends not only on economic conditions but on the entrepreneurs' response to the conditions created by the Government's policy measures.

The factors on which the Israeli economy depends are such that they cannot be evaluated with a high degree of certainty. Immigration, defence expenditures and capital imports are three imponderables that make exact forecasts and precise planning extremely difficult, but at the same time emphasize the need for planning in order to obtain an overall view of the economy and be able to anticipate possible changes and cope with their effects.

The significance of the Plan lies in the presentation of a comprehensive, consistent system, in which due consideration is given to the interdependence of exogenous factors, joint targets and specific measures. Thanks to its internal coherence, it provides a good basis for analyzing the effects of changes which will no doubt occur in the assumptions underlying the forecasts and proposed development of this or the other sector.

Planning is a dynamic, continuous process. It calls for constant re-examination and revision in the light of changes that have taken place in the basic assumptions or in the implementation of the program; and it is in this light that the Plan should be viewed.

We may sum up by saying that the Plan is based on three major elements: the basic

assumptions are the legs it has to stand on; the quantified targets are its backbone; and the policy measures designed for their attainment constitute its spirit. Any major change in the basic assumptions pulls the ground from under its feet. Without quantified targets it would have neither body nor shape. And by divorcing it from the policy measures contemplated, one takes away its spirit.

We present here the first – and summary – chapter of The National Economic Development Plan, 1971–1975. The Plan itself consists of thirteen chapters, five dealing with macro-economics and eight with industrial sectors.

The first chapter below shows a hypothetical development of the economy, on the assumption that the existing trends will continue.

The second chapter summarizes the main points of the Development Plan.

The third chapter summarizes the central exogenous assumptions on which the Plan is based.

The appendix contains a number of relevant tables showing the development of the various branches of the economy according to the development plan.

The Economic Planning Authority extends its thanks to all the units and persons who have helped in the preparation of the plan. In particular it is our privilege to thank Dr. Jacob Arnon who was in charge of the planning operations until 1.1.1970, for generously offering his practical guidance until they were completed.

Eliezer Ronnen
Director, Economic Planning Authority

FORECAST FOR 1975 ACCORDING TO CURRENT TRENDS

Without a vigorous policy in every sphere, Israel's economic targets cannot be attained. That this is so is clearly demonstrated by the extrapolation of the current consumption and savings trends to the end of the planning period. Thus, if private consumption continues to increase by 8% per annum – a 5% per capita – gross national product by 9%, exports by some 10% and imports by 9%, then by 1975 the import surplus will be up to 2,000 million dollars from 1,255 million dollars in 1970. During the entire period the import surplus will accordingly be about 8,500 million dollars. Together with foreign currency reserves equivalent to two months imports, in the amount of 300 million dollars, we arrive at a total of 8,800 million dollars that will have to be financed by capital imports. Yet the actual capital imports expected are only about 4,880 million dollars. This means doubling the projected capital inflow needed. Accordingly, even if the required loans were obtainable, which is highly unlikely, Israel's foreign debt would increase by approximately 8,500 million dollars. The burden of debt and interest charges would be unbearable.

Consequently this growth pattern cannot be adopted, and an alternative must be sought, taking into account the country's security needs as well as its limited resources. Disregard of labor, capital, foreign currency and time limitations will have dire economic effects already within a few years. Under these circumstances Israel during the next five years cannot afford a rapid rise in the standard of living, and must curb the growth of investments and imports, while increasing her exports.

THE DEVELOPMENT PLAN 1971–1975

Economic Growth

Israel's relatively rapid economic growth will be sustained during the next five years. The Gross National Product will go up by about 7.7% per annum, or approximately 45% over the whole five-year period, to about IL. 27,765 million by 1975, IL. 8,590 million more than in 1970. The Gross Domestic Product (at market prices) will rise at the slightly higher rate of 8% per annum, because of a rapid increase in payments to foreign production factors operating in Israel, by way of interest charges and wages paid to workers from the administered areas.

The largest contribution to the growth of the GNP will be made by industry. Its output is expected to increase by over 10% per annum, in view of the growing demand of the defence establishments and more goods being exported or used as import substitutes.

To attain this growth rate the industrial output structure must be radically changed. Industrial production for defence purposes – mainly machinery, electronics and transportation equipment, including the production of recently developed items as well as new product developments – is expected to go up by 150%.

The main impact of these developments will be felt in 1974-1975 and during the second half of the decade. Import substitution will also take place in the field of capital goods as the higher volume of investments and increasing mechanization render their local manufacture more worthwhile. The principal effort will be directed towards increasing the industrial export rate. Diamond exports are expected to grow no faster than the world demand, Israel already having a large share of the market. On the other hand, industrial exports other than diamonds will rise rapidly, by an estimated 21% per annum, to some 985 million dollars by 1975, compared with 382 million dollars in 1970. Although a faster growth has been experienced at various times, special efforts are required for this rate to be maintained and the profitability of exports has to be ensured by direct and indirect means.

The agricultural sector will continue to grow more slowly than the gross national product by a mere 5% per annum, because the supply of land and water and the demand for agricultural produce are limited. Strenuous efforts will, however, be made to boost exports, both of citrus and of other agricultural products, so as to reach the target of 205 million dollars by 1975, compared with 126 million dollars in 1970. Government policy will be directed toward expanding profitable and cutting down unprofitable exports. Still, the bulk of the farm produce will go to the local market and to the food industry, part of whose output will also be exported.

Transport and communications is essentially an infrastructural sector whose development is bound up with the changes that take place in other sectors: The merchant marine and port development will be affected by the projected growth in exports and imports; civil aviation by the growth of the tourist industry; and the same goes for road development, motorized transport and the communications network. The total output of this sector will grow by more than 8% per annum, to approximately IL. 4.4 billion by 1975.

The output of the construction sector will grow by about 7% per annum. Its principal target is to build sufficient dwellings for immigrants (of whom 250,000 are

expected during the next five years), carry on slum clearance projects and provide homes for young couples. Non-residential construction will be coordinated with the investment program of each sector while for defence purposes a fairly rapid increase in the erection of military installations and shelters is foreseen.

Services are expected to expand more slowly than the G.N.P. The public sector output will increase but little as the Government will carry out a rationalization program and curb the expansion of services other than education and health. The number of persons employed in education is expected to go up by 20,000 and in health by 10,000 – a total of 30,000. The planned reform in primary and secondary education coupled with the expansion of secondary and higher education and of vocational training, including retraining and refresher programs designed to enhance labor mobility, will push up investments to about IL. 1 billion. This investment in human capital, designed to meet modern technological demands, will bear fruit only after 1975.

A considerable growth is expected in the tourist industry with the number of tourists by 1975 coming up to 850,000, twice as many as in 1970. Inland tourism will also grow as a result of the slight rise in the standard of living and the higher cost of foreign travel.

The remaining services will grow only slowly mainly because of the modest rise in the standard of living.

TABLE 1:
RESOURCES AND USES, 1969 and 1970, and FORECAST FOR 1971 – 1975

	1969	1970	1975	Annual Growth 1969–1970	Average Annual Increase
	(IL. million, 1970 prices)			(Percent)	
Gross National Product	18,255	19,175	27,765	5.0	7.7
Imports*	7,770	9,440	13,285	21.5	7.1
Total Resources	*26,025*	*28,615*	*41,050*	*10.0*	*7.5*
Private Consumption	11,335	11,680	15,065	3.0	5.2
Public Consumption**	5,660	7,155	9,395	26.4	5.6
Gross Investment	4,310	4,685	6,405	8.7	6.5
Exports*	4,720	5,095	10,185	7.9	14.9
Total Uses	*26,025*	*28,615*	*41,050*	*10.0*	*7.5*

* According to the balance of payments, at the official exchange rate and at current prices (including trade with the administered areas).

** Including interest paid by the public sector to foreign creditors.

Source: 1969–1970 Central Bureau of Statistics
1971–1975 Economic Planning Authority.

TABLE 2:
POPULATION, LABOR FORCE AND EMPLOYED PERSONS, 1969 and 1970, and FORECAST FOR 1975

	1969	1970	1975	Change from previous year 1969 & 1970	Average Annual Change 1970–1975
	(Thousands)			(Percent)	
Average Population	2,880	2,971	3,460	3.0	3.1
Population of Working Age*	1,978	2,044	2,368	3.3	3.0
Labor Force Participants	993	1,006	1,190	1.3	3.4
Employed Persons	949	968	1,150	2.0	3.5
Unemployment	44	38	40	-13.7	1.1
Labor Force Participation Rate	50.3	49.2	50.2	–	–
Unemployment Rate	4.4	3.8	3.4	–	–

* The working age population belonging to the labor force according to detailed forecast by age, sex and population group, and specific participation rates.

Source: Central Bureau of Statistics.

TABLE 3:
EMPLOYMENT, BY ECONOMIC SECTOR, 1969 and 1970, and FORECAST FOR 1971–1975

	1969	1970	1975	Change from 1969 to 1970	Average Annual Change 1970–75	Share in Employment Increment 1970–75
	(Thousands)				(Percent)	
Total	949	968	1,150	2.0	3.5	100.0
Agriculture	99	93	89	-5.1	-1.0	-2.6
Industry and Mining	254	268	337	5.5	4.7	37.9
Construction	77	82	90	6.5	1.9	4.4
Transport and Communications	73	73	86	–	3.3	7.1
Water, Electricity and Sanitation	19	19	20	–	1.0	0.5
Commerce, Finance and Business Services	142	142	175	–	4.2	18.1
Public and Personal Services	285	291	354	2.1	4.0	34.6

Source: 1969 and 1970 Central Bureau of Statistics
1971 – 1975 Economic Planning Authority.

Domestic product growth will be the result of increased employment, capital stock and productivity. Analysis of the labor demand and supply projections shows that by 1975 the demand will be about 1,200,000 against a supply of only 1,150,000. It is assumed that an extra 15,000 men from the administered areas will be employed in addition to the present 25,000. Beyond that however, a rapid increase in the number of employed persons is envisaged, with a state of full employment throughout the coming five years. Of the total increment of 200,000 approximately 70,000, or roughly 40%, will be deployed in industry; agriculture can dispense with some 4,000 men; while in the services, education, with an extra staff of 20,000 will account for about 20% of the increase (12% of the total increment).

Domestic output per worker will increase by an average of 4.5% per annum, or a total of 25% over the five-year period. The capital stock is expected to grow by about 8% per annum but will be used more efficiently so that after its rapid increase in relation to output a fairly stable capital ratio will be maintained. Enhanced capital utilization will be encouraged by an appropriate price policy and fiscal incentives to induce manufacturers to put on extra shifts.

Some IL. 6,285 million will be invested in industry, so that by 1975 its capital stock will be 60% above the 1970 level and the share in the total capital stock will come up to 27%. The capital stock per industrial worker will be IL. 30,000, compared with IL. 23,000 in 1970.

In the transport sector the capital/labor ratio is likewise expected to increase. An investment of about IL. 6,615 million will raise the capital stock by 55% over its initial level.

During the coming five years, IL. 5,225 million will be invested in the service sector – IL. 1,200 million in education, IL. 500 million in health, IL. 670 million in tourist services, and some IL. 2,700 million in public buildings, commerce personal and business services – so that by 1975 the capital/stock level will be up 25% less than in either industry or transport.

Altogether the stock of productive capital per employed person will rise more moderately than in the past, from some IL. 28,000 to approximately IL. 34,000. Productivity will go up by about 3% annually and will account for about 35% of domestic product growth.

The Balance of Payments

One of the limitations – perhaps the crucial one on the development of the economy is the shortage of foreign currency. Since 1967 the import surplus has been rising rapidly – from approximately 530 million dollars to 1,240 million dollars in 1970. If the present trends are allowed to continue, a point will soon be reached where the import surplus can no longer be financed. This would mean an abrupt, drastic, restriction of imports which would result in economic crisis and mass unemployment. It is therefore essential to anticipate matters and avert this kind of situation by appropriate planning, the importance of which is underscored by the time factor. While exports cannot be increased overnight, the very process of expansion involves a rise in imports.

To cut down the import surplus various measures are proposed to curb the rise in imports on the one hand, and promote exports on the other. The small domestic

market, the paucity of natural resources and the distance from the West European and North American markets seriously handicap the expansion of exports while rapid expansion, substantial investments and the enhancement of the export potential call for increased imports. However, Israel still imports many products which could profitably be replaced with local products, and the increased quantities of consumer and capital goods required justify their local production. At the same time however, the locally manufactured goods will, with the growing liberalization of imports, be exposed to foreign competition – particularly durable goods which at present enjoy a very high level of fiscal protection. Consequently, even if import substitution potential is fully utilized, this alone is unlikely to solve the balance of payments problem, which should be tackled mainly from the export angle. Strenuous efforts should be made to boost exports by means of a consistent and persistent policy directly and indirectly working to that end.

In aiming at a 15.2% annual increase in exports – a total of 10.7 billion dollars over the five-year period – to reach a level of 2,780 million dollars by 1975 as against 1,370 million dollars in 1970, we are setting ourselves an ambitious goal. If adequate efforts are made and the appropriate steps are taken, however, this goal should not be beyond us.

TABLE 4:
IMPORTS, EXPORTS, IMPORT SURPLUS and CAPITAL IMPORTS, 1970 – 1975
(Excluding Trade With the Administered Areas)

	1970	1975	1971–1975	Average Annual Growth 1970–1975
		(Million Dollars)		(Percent)
Imports[a]	2,610	3,710	16,565	7.3
Exports[b]	1,370	2,780	10,690	15.2
Import Surplus	1,240	930	5,875	-5.5
Capital Imports	1,335	770	4,880	–
Required Foreign Currency Reserves	440	650	–	–
Additional Capital Imports Required[c]		215	1,295	–
Balance of Foreign Debt[d]	2,620	5,725	–	16.9

a According to specific assumptions for each year (see Balance of Payments).

b Rising rates of growth from year to year.

c Covering two months' imports.

d Assuming that all the additional capital imports required consist of loans.

The Government will ensure the profitability of exports in relation to the domestic market and to Israel's competitors abroad. It will react promptly to foreign and local price fluctuations, and to variations in the cost of local and imported raw materials. The availability of production factors will be ensured by curbing the growth of private per capita consumption to 1-2% per annum, and the profitability of investments in export industries will be ensured by the Law for the Encouragement of Capital Investments and the Industry Law.

TABLE 5:
EXPORTS, BY ECONOMIC SECTOR, 1969 and 1970, and FORECAST FOR 1971 – 1975

	1969	1970	1975	Increase or Decrease (–) Between 1969 1970	Average Annual Change 1970 1975
	(Million Dollars)			(Percent)	
Commodity Exports					
Industrial Products	550	585	1,225	6.4	16.5
Of Which: Diamonds	(215)	(203)	(270)	-5.6	5.9
Other Industrial Commodities	(335)	(382)	(985)	14.0	20.9
Farm produce	118	126	205	6.8	10.2
Other Exports (including ships and aircraft)	21	19	20	-9.5	
Gross Commodity Exports	689	730	1,485	5.9	15.2
Net Commodity Exports	679	720	1,475	6.0	15.4
Export of Services					
Transportation	217	265	625	22.1	18.8
Tourism	85	100	190	17.6	13.7
Insurance	100	117	200	17.0	11.3
Capital	73	55	90	-24.7	10.3
Government, n.e.s.	33	28	35	-15.2	4.6
Others	78	85	165	9.0	14.2
Total Service Exports	586	650	1,305	10.9	15.0
Total	1,265	1,370	2,780	8.3	15.2
Exports to the Administered Areas	84	85	130		8.6
Grand Total	1,349	1,455	2,910	7.8	14.9

Source: 1969 – 1970 Central Bureau of Statistics
1971 – 1975 Economic Planning Authority.

The Preferential Trade Agreement with the European Common Market will facilitate the expansion of exports to these countries. Indirect Government support will also be forthcoming in the sphere of sales promotion, market research, product design, participation in exhibition and trade fairs and increased activity on the part of Israel's commercial attachés.

TABLE 6:
IMPORTS OF COMMODITIES AND SERVICES, 1969 and 1970, and FORECAST FOR 1971 – 1975

	1969	1970	1975	Change from 1969–1970	Average Annual Change 1970–1975
	(Million Dollars)			(Percent)	
Commodity Imports					
Consumer Goods	140	140	225	-	10.0
Raw Materials	862	920	1,520	7.0	10.6
Capital Goods	287	350	405	21.9	2.9
Of which: Ships and Aircraft	(34)	(66)	(75)	94.1	-7.2
Gross Commodity Imports	1,277	1,410	2,150	4.2	8.8
Net Commodity Imports	1,234	1,350	2,060	9.4	8.8
Service Imports					
Transportation	137	165	350	20.4	16.2
Tourism	68	57	75	-16.2	5.6
Insurance	92	112	195	21.7	11.7
Capital	151	178	365	17.9	15.4
Government, n.e.s.	405	678	515	67.4	-5.6
Others	76	70	150	-7.9	16.5
Total Imports of Services	929	1,260	1,650	35.6	5.5
Total	2,163	2,610	3,710	20.7	7.3
Imports from the Administered Areas	57	65	85	14.0	5.2
Grand Total	2,220	2,657	3,795	20.5	7.2

Note: Imports are calculated on a c.i.f. (cost, insurance, freight) basis.

Source: 1969 and 1970 Central Bureau of Statistics
1971 1975 Detailed Forecast by Growth in End Uses and Sectoral Outputs, Prepared by the Economic Planning Authority.

Most of the export effort will be undertaken by industry. Industrial exports (not including diamonds) will grow by 20% per annum and to approximately one billion dollars a year, compared with 382 million dollars in 1970. Diamond exports – at present one third of total industrial exports – are expected to increase but slowly, owing to the limited overseas demand.

The rapid expansion of agricultural exports other than citrus – vegetables and fruits, flowers, groundnuts, cotton and the like – will be sustained. Citrus – the main export crop – suffers from the same market limitations as diamonds as well as from competition from other Mediterranean countries. So that, at least in the short run, expansion will be slow.

TABLE 7:
EXPORTS, IMPORTS and IMPORT SURPLUS in 1969 and 1970, and FORECAST FOR 1971 – 1975

Imports and Exports	1969	1970	1975	Change 1969–1970	Average Annual Change 1970–1975
	(Million Dollars)			(Percent)	
Commodity Imports	1,234	1,350	2,060	9.4	8.8
Commodity Exports	679	720	1,475	6.0	15.4
Commodity Import Surplus	555	630	585	13.5	-1.5
Service Imports	929	1,260	1,650	35.6	5.6
Service Exports	586	650	1,305	10.9	15.0
Service Import Surplus	343	610	345	77.8	-10.8
Commodity and Service Imports	2,163	2,610	3,710	20.7	7.3
Commodity and Service Exports	1,265	1,370	2,780	8.3	15.2
Total Import Surplus	898	1,240	930	38.1	-5.5
Export Surplus to the Administered Areas	27	20	45	-25.9	17.6
Grand Total	871	1,220	885	40.1	-6.2

Source: Tables 5 and 6

The expansion of civil aviation and the merchant marine will lead to a growth in the export of transportation services by approximately 19% per annum. A corresponding increase is expected in the export of tourist services. The number of tourists will probably reach 850,000 by 1975, compared with 400,000 in 1970.

The import forecast is derived from the growth in end uses – private and public consumption, gross investments and exports, also taking into account input substitution in an amount of 300 million dollars, mainly of capital goods and security items.

By 1975 imports will total 3,710 million dollars, some 1,100 million dollars more than in 1970. This represents an annual growth rate of approximately 7.0%, relatively low compared with the past rate and the growth in the gross national product. Total imports for the five-year period will be 16,565 million dollars, of which 2,800 million dollars are direct defence imports and another 1,200 are indirect defence imports, such as raw materials for the military industry and the like. This takes into account the expected decrease in direct defence imports in 1974-1975.

Total imports, excluding defence, will therefore reach about 12,560 million dollars.

The bulk of the increase will consist of raw materials – some 11% per annum – and of capital services, including interest payments – about 17% per annum. Commodity and other imports will increase but slowly. To curb imports and promote import substitution the liberalization policy instituted several years ago will be continued, combined with the standard import tax policy launched in August 1970. This integrated policy will reduce price differential between various import commodities and raise the average price level of imports. It will thus encourage the local production of capital goods, which at present is not profitable because of a lower level of protection they enjoy. Liberalization, through exposure to foreign competition will on the other hand reduce the profitability of commodities which have so far enjoyed excessive protection, particularly consumer durables such as vehicles, television sets etc., in respect of which Israel does not appear to have a comparative advantage.

The import surplus in 1975 will be approximately 930 million dollars, compared with 1,240 million in 1970. The total cumulative import surplus for the entire period will be 5,875 million dollars, as against capital imports of only 4,880 million dollars. To this must be added the necessary foreign currency reserve, of at least two months' imports, amounting to some 650 million dollars by 1975 – about 300 million dollars more than in 1970. In the final analysis, Israel will be 1,300 million dollars short beyond the expected capital imports. If foreign loans have to be used to bridge this gap, the country's foreign debt will be 5,725 million dollars by the end of 1975. If, however, unilateral transfers increase beyond our estimate, the foreign debt burden will be correspondingly reduced. Altogether, some 6.2 billion dollars net will have to be raised in the next 5 years, or 1.2 billion a year.

TABLE 8:
GROSS INVESTMENT in 1969 and 1970, and FORECAST FOR 1971 – 1975

	1969	1970	1975	Total 1971–1975	Change, 1969–1970	Average Annual Change, 1970–1975
	(Million IL.)				(Percent)	
Agriculture	205	200	250	1,250	-2.4	4.6
Irrigation and Water Projects	47	45	60	300	-4.3	5.9
Industry and Mining	740	815	1,625	6,285	10.1	14.8
Electricity	138	143	190	1,005	3.6	5.9
Construction Equipment	79	83	80	400	5.1	-0.7
Communications and Transport	980	946	1,090	6,615	-3.5	8.8
Of which: Ships and Aircraft, net	(91)	(200)	(235)	(2,525)	119.8	3.3
Services and Trade	911	900	1,150	5,225	-1.2	5.0
Total Investment in Economic Branches	3,110	3,132	4,445	21,080	1.0	7.2
Housing	1,086	1,441	1,680	7,845	32.7	3.1
Total Investment in Fixed Assets	4,185	4,575	6,125	28,925	9.2	6.0
Change in Capital Stock	125	110	280	995	-12.0	20.5
Gross Investment	*4,310*	*4,685*	*6,405*	*29,920*	*8.7*	*6.4*

Source: 1969 and 1970 Central Bureau of Statistics
1971–1975 Economic Planning Authority.

Capital Formation

By 1975, gross investments will stand at about IL. 6,405 million, a growth of IL. 1,720 million over 1970. Investments in fixed assets will increase at a similar rate to IL. 6,125 million by 1975, totalling IL. 28,925 million over the five years (see Table 8).

Of the fixed asset investment approximately IL. 8 billion will go to residential construction, with a considerable portion being spent on houses for immigrants – 50,000 families and 50,000 single persons.

Some IL. 21 billion will be invested in the economy. The investment requirements of the various sectors were determined, according to the projected demand for their output, also taking into account the country's manpower and foreign currency limitations. By means of the Law for the Encouragement of Capital Investments, exchange rate provisions, the liberalization policy, the fiscal policy and similar means, strong incentives will be provided to invest in export of import substitution industries. Direct support will also be provided to investors by way of cheap and easy credit. It is realized that the investment target must be attained if the remaining objectives of the Plan are to be accomplished.

At the same time inducements will also be provided to management and labor alike, for the more effective utilization of the existing capital in order to economize on investments.

About a third of the gross economic investment will be in industry, to enable it to increase its output, develop new products and scale up the production of recently introduced items. As stated, the industrial structure is expected to undergo a radical change and most of the investment will be channelled to the machinery, electronics and metal products industries, as well as to the chemical industry and the Arad Chemical Complex so as to promote local mineral exploitation.

About IL. 6.6 billion will be invested in transport and communications, of which approximately IL. 2.5 billion will be spent on ships and aircraft. The merchant marine will double its tonnage to 5 million, the additional capacity consisting mainly of freighters and tankers. Large sums are being invested in the purchase of two Boeing 747 "Jumbo-Jets", and El-Al has options on the purchase of more sophisticated planes which will be available only in the subsequent five-year period. El Al's development plans are based on the projected growth of world tourism and of the Israeli tourist industry. Infrastructure investments in the urban and inter-urban road system will be geared to the overall expansion of economic activity.

Considerable investment in commerce and industry are also required. Thus new housing developments call for new shopping centers, public buildings, etc. However, having regard to the limitations discussed, no major expansion is envisaged except in education. Of the IL. 5 billion investment in services, more than IL. 1 billion will go to education.

The financing of the IL. 29 million investment in fixed assets must come mainly from abroad. Domestic savings are expected to increase from IL. 415 million in 1970 to IL. 3,305 million by 1975, when they will finance half of the gross investment, as against roughly 20% in 1968 and 1969 and only 9% in 1970. The rapid growth in domestic savings will be generated by stepped up private savings and a rapid decline in the negative savings of the public sector.

The public sector will provide more than half of the investment capital. Out of the total of IL. 29 billion, some IL. 15 billion will be raised from local and foreign sources by the Government, the local authorities and the national institutions.

TABLE 9:
GROSS INVESTMENT IN TRANSPORT AND COMMUNICATIONS, COMMERCE AND SERVICES, 1969 and 1970, and FORECAST FOR 1971 – 1975 (1970 PRICES)

					Change,	Average Annual Change,
Commerce and Services	**1969**	**1970**	**1975**	**1971–1975**	**1969–1970**	**1970–1975**
		(Million IL.)			(Percent)	
Total	911	900	1,150	5,225	-1.2	5.0
Education		194	240	1,200		4.3
Health		81	120	600		8.2
Tourism		95	135	670		7.3
Others		530	655	2,755		4.3
Transport and Communications						
Total	980	946	1,090	6,615	-3.5	2.9
Ships and Aircraft	91	200	235	2,525	119.8	3.3
Roads	150	135	225	945	-10.0	10.8
Posts and Communications	162	138	185	950	-14.8	6.0
Others	577	473	445	2,195	-18.0	-1.0

Source: 1969 and 1970 Central Bureau of Statistics
1971–1975 Economic Planning Authority

Public Consumption

Public consumption in 1975 will total IL. 9,395 million (at 1970 prices), compared with IL. 7,155 million in 1970 – an average annual growth of almost 5.6%.

Defence consumption will increase an average annual rate of 6% over the next five years with higher rates up to 1973, and will total about IL. 28,000 million. By 1975, however, its share in the gross national product will be less than the 25% recorded in 1970.

Growing defence requirements, on the one hand, and the unreliability of foreign arms supplies, on the other, make it imperative to develop local production more rapidly than in the last two years. The increased defence expenditure, and the extensive experience accumulated by the Israel Defence Forces, make it economically worthwhile to expand the local production of weapons systems, particularly of sophisticated systems like those manufactured by the aeronautical industry. It is intended to step up this production during the coming five years and still more so during 1975-1985. The investments projected for 1970-75 will also make it possible, mainly towards the end of the period, to export these items which are in high demand. Nonetheless, substantial imports for defence purposes are still needed. Imports for direct defence purposes are expected to reach approximately 2,800 million dollars.

Public consumption for civilian purposes will grow at a rate of around 6% per annum, compared with an annual population growth of 3%. It is assumed that the level of services supplied to the population will be improved by means of greater rationalization and automation. The standard of health and education services will be raised both directly and indirectly, but the expansion of other government services will be kept to the minimum.

Increased capital imports and loan repayments will cause a substantial increase in interest charges payable by the public sector to overseas creditors.

The rapid growth in defence expenditure in recent years which was not matched by an equivalent rise in tax revenues, has pushed the public sector's negative savings up to IL. 2,850 million by 1970. In the coming five years it is intended to bring the public sector's dissavings down to about IL. 1 billion by hiking tax revenues and curbing the growth of public consumption.

The net income required by the public sector in 1975 is close to IL. 8,575 million, IL. 1,820 million more than the revenue obtainable at the present rate of taxation. The tax system must accordingly be geared to the projected requirements by introducing Added Value Tax and the like.

TABLE 10:
PRIVATE, PUBLIC AND NATIONAL SAVINGS 1969 – 1975
(1970 PRICES)

	1969	1970	1975	Change, Between 1969–1970	Average Annual Increase 1970–1975
	(Million IL.)			(Percent)	
1. Private Disposable Income	14,730	14,875	19,190	1.0	5.2
2. Private Consumption	11,335	11,680	15,065	3.0	5.2
3. Local Private Savings (1)-(2)	3,395	3,195	4,125	-5.9	5.2
4. Gross National Savings	1,260	340	3,305	-73.0	57.6
5. Required Public Savings (4)-(3)	-2,135	-2,855	-820	–	–
6. Public Sector Income, net	3,525	4,300	8,575	22.0	14.8
7. Public Consumption	5,660	7,155	9,395	26.4	5.6
8. Net Income of Public Sector	3,525	4,300	6,775	22.0	9.5
9. Additional Public Sector Income Required (7)-(8)	–	–	1,820	–	
			RATES		
Rate of Private Saving from Income	23.0	21.5	21.5	–	–
Rate of National Income from National Product	6.9	1.8	11.9	–	–
Rate of National Saving from Gross Investment	28.2	7.3	51.6	–	–
				–	–

Note: Gross National Savings = gross investments less import surplus.
1975 : -2,620 = 5,785 – 3,165.

Source: 1969–1970 Central Bureau of Statistics
1971–1975 Economic Planning Authority, in coordination with State Revenue Administration.

Private Income and Consumption

While the gross national product will grow by some 7.7% per annum during the next five years, private disposable income from internal sources will increase by only 5% per annum, since more of it will be absorbed by the public sector with a view to curbing private consumption. It is intended that per capita private consumption should rise by more than 2% per annum. While a heavier burden will be imposed on the public as a whole, provisions will be made to raise the standard of living of low-income groups by more than the general average. The rapid rise in the standard of living of the more prosperous sectors will come to a halt. This will counteract the former trend towards increasing inequality in consumption. Since ever more highly skilled workers are required in order to attain the production targets the trend towards greater inequality in income will presumably persist, but social policy can correct this by reducing the disparity in the sphere of consumption.

The fiscal policy and import policy will change the relative prices of the various products. Certain consumer durables will become cheaper, while other products will become more expensive. Prices of imported goods will continue to rise relatively to locally-produced goods. These changes will, of course, influence the composition of private consumption. In general, it may be said that the trends which have emerged in the past will continue: less expenditure on food and more on various services – such as education and health.

It is assumed that the rate of private savings will not be affected by the higher taxation. By 1975 private savings will amount to about 21.5% of the gross disposable income from internal sources, the same as in 1970. This is the rate to be expected from the behavior patterns of households and companies, and from the inducements provided for savings through provident funds, the banking system, and other agencies.

EXOGENOUS VARIABLES

The Plan is predicated on three exogenous assumptions – the population forecast, the capital imports forecast and the defence expenditure forecast.

The Population

Israel's population is expected to increase from 2,970,000 in 1970 to 3,460,000 by 1975, at an annual rate of approximately 3 per cent. Natural increase[1] will account for about 330,000 and immigration for the rest. It is assumed that about a quarter of a million immigrants (gross) will come to Israel during this period.[2]

The population of working age is expected to increase at the same rate as the population as a whole (see Table 2), and, by 1975 will total approximately 2,368,000.

The labor force participation rate will go up slightly to approximately 50.2% from the present 49.2 percent, due to the higher participation of women and somewhat higher participation of the non-Jewish population. The civilian labor force in 1975 will accordingly be 1,190,000, compared with 1,006,000 in 1970 – an increase of some 184,000.

Capital Imports

Capital imports are regarded as an exogenous variable since they impose a limitation on the import surplus, while the government has virtually no influence over some of the unilateral transfers (personal restitutions from the German Government) and a substantial part of foreign loan repayments. Personal restitutions are regulated by non-Israeli law, and loan repayments are subject to agreements signed in the past. Some capital imports, however, – such as financial aid from international agencies, Independence and Development Loan Bond issues and the United Jewish Appeal – largely depend on Government action. The Government can also promote the growth of foreign investments through the Law for the Encouragement of Capital Investments, the Industry Law, the Preferential Trade Agreement with the European Common Market, and similar policy measures.

Capital imports over the five years[3] are estimated at approximately 4,880 million dollars (see Table 12), and gross capital imports[4] at about 6.5 billion dollars. The forecast is based mainly on loans which the Government is fairly certain of receiving, such as loans from the West German Government and the International Development Bank. It does not include aid from the U.S. Government and assumes no increase in

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1 The forecast assumes a slightly higher natural increase of 16.3 pro mil for the Jewish population in view of the rising birth-rate since 1967. The natural increase of the non-Jewish population is expected to be down to 38.8 pro mil in line with the recent trend.

2 Two alternative assumptions regarding immigration were tested and the main effect was residential construction.

3 Net capital imports – after repayment of loans.

4 Gross capital imports – all imports of enlisted capital, before repayment of loans.

Independence and Development Bond sales and other foreign fundraising receipts, nor does it include supplier's credit on imports which in previous years averaged about 70-100 million dollars, and will presumably remain unchanged.

From the Development Plan it appears that some 1,295 million dollars more than the anticipated net capital imports will be needed to finance the projected import surplus and maintain the desired level of reserves (see Balance of Payments). It is assumed the funds required can be raised and net capital imports can be brought up to a total of 6,100 million dollars over the coming five years.

TABLE 11:
THE POPULATION 1970 – 1975
(Thousands)

	1970	1971	1972	1973	1974	1975
Total Population						
At beginning of year	2,925	3,018	3,113	3,210	3,308	3,407
At end of year	3,018	3,113	3,210	3,308	3,407	3,513
Average Population	2,971	3,065	3,161	3,259	3,357	3,460
Growth of Average Population	3.0	3.2	3.1	3.1	3.0	3.1
Jewish Population						
At beginning of year	2,503	2,579	2,657	2,736	2,815	2,895
At end of year	2,579	2,657	2,736	2,815	2,895	2,981
Immigration	50	50	50	50	50	50
Non-Jewish Population						
At beginning of year	422	439	456	474	493	512
At end of year	439	456	474	493	512	532

Note: Assuming a gross annual immigration of 50,000 and a natural increase of 16.3 pro mil for Jews and of 38.8 pro mil for non-Jews.

Source: Central Bureau of Statistics, Population Forecast for 1975.

Defence Expenditure

In view of the current and anticipated security situation it is assumed that the defence expenditure will continue to grow, but less so than in the last three years. With the intensification of local production and the growing replacement of imports it is also assumed that towards the end of the five-year period[1] the direct foreign currency expenditure will decline.

TABLE 12:
CAPITAL IMPORTS IN 1970 and FORECAST FOR 1971 – 1975
(in Million Dollars, not including trade with the Administered Areas)

	1970	1971	1972	1973	1974	1975	Total 1971–1975
1. Unilateral Receipts	677	685	635	535	510	505	2,870
2. Long and Medium Term Loans	899	1,085	685	530	530	530	3,360
3. Repayment	271	310	340	310	305	325	1,590
4. Net Investments	30	35	35	50	60	60	240
5. Increase in Long and Medium Term Debts (2)-(3)	628	755	345	220	225	205	1,770
6. Net Capital Movement (4)+(5)	658	810	380	270	285	265	2,010
7. Net Capital Imports (1)+(6)	1,335	1,495	1,015	805	795	770	4,880

Source: The Economic Advisor to the Ministry of Finance.

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1 For further details, see "Public Sector Consumption."

PRINCIPAL DATA OF SECTORAL PROGRAM

APPENDIX

TABLE A:
DEVELOPMENT INDICATORS IN INDUSTRY IN 1970, and FORECAST FOR 1975

	1970	1975	1965-70	1970-75
			Average Annual Growth	
Output (IL. million)	12,785	21,350	10.1	10.8
Export ($ million)	585	1,200	13.2	15.4
Of Which: Diamonds	(203)	(270)	(9.0)	(5.9)
Others	(382)	(930)	(16.0)	(19.5)
Gross Investment (IL. million)	815	1,625	10.3	14.8
Employed Persons (thousands)	280	352	4.5	4.7
Average Output per Employed Person (thousands)	45.7	60.7	5.4	5.8

TABLE B:
OUTPUT, EXPORTS AND EMPLOYED PERSONS IN INDUSTRY BY SUBSECTOR, IN 1970 and 1975
(Percent)

	Output			Exports			Employed persons		
	1970	1975	Increase	1970	1975	Increase	1970	1975	Increase
Total Industry	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Metals and Electronics	30.1	37.1	47.1	12.1	21.7	30.8	34.2	38.4	55.2
Food	18.6	14.5	8.4	10.7	8.3	6.0	13.6	11.6	4.0
Textiles, Clothing and Leather	16.6	16.2	15.7	17.0	21.6	26.1	21.9	21.7	20.7
Other	34.7	32.3	28.8	60.2	48.4	37.1	30.3	28.3	20.4

TABLE C:
POWER CONSUMPTION, BY TYPE OF CONSUMPTION
(KWH million)

Year	Total	Domestic	Industrial	Water Supply	Public, Business and Agricultural
1970	5750	1430	2000	1330	990
1975	8930	2095	3685	1580	1570

TABLE D:
POWER DEMAND AND POTENTIAL OUTPUT 1970 and 1975

Year	Total Demand	Potential Output	Largest Single Power Station
1970	1140	1196	214
1975	1835	1986	228

TABLE E:
DEVELOPMENT INDICATORS IN AGRICULTURE
1970 and 1975

	1970	1975	Annual Average Growth
Current output at 1970 prices (IL. million)	2032	2642	5.3
Employed persons (thousands)	92	94	0.4
Annual Investment (IL. million)	200	252	4.6
Exports ($ million)	131	205	9.4
Of Which: Citrus	(90)	(128)	7.3
Others	(41)	(77)	13.4

TABLE F:
AGRICULTURAL OUTPUT AT 1970 PRICES, 1970 and 1975

	1970	1975	Average Annual Growth
Total Output	2032	2642	5.4
Field Crops and Vegetables	506	740	7.9
Citrus	383	488	4.6
Other fruit	208	274	5.7
Dairy Products	211	237	2.3
Poultry	171	204	3.6
Livestock	393	479	4.0
Others	160	220	6.6

TABLE G:
INVESTMENTS IN WATER SUPPLY, 1970 – 1975

	IL. Million
Supply systems and pumping	30-50
Reservoirs	20-25
Groundwater	50
Supply to new settlements	30-50
R & D of non-conventional methods	15-20
Drainage	50-130
Sewage Recovery	15-25
Replacement of Urban mains	30-50
Replacement of mains and improvement of agricultural irrigation	50-80
TOTAL	290-480

TABLE H:
MAIN DEVELOPMENT INDICATORS IN TOURIST INDUSTRY
1965 – 1971 and 1975

	1965	1966	1967	1968	1969	1970	1971	1975
Inbound tourist traffic (thousands)	297	328	291	432	409	437	620	850
Overnight stay in tourist hotels (thousands)	1,876	2,101	1,891	3,400	3,213	3,432	5,000	6,400
Number of rooms in tourist hotels (at end of year)	9,174	9,648	10,135	13,091	14,369	15,100	16,100	26,000
Foreign currency income ($ million)	55	59	52	96	86	104	150	200
Investment (at current prices) (IL. million)	22	25	35	57	90	95	130	155

TABLE I:
TRANSPORT AND COMMUNICATIONS
OUTPUT, EXPORTS, CAPITAL STOCK AND EMPLOYED PERSONS
IN 1970 and FORECAST FOR 1975

	1970	1975	Average Annual Growth (Percent)
Output (IL. million, at 1970 prices)	3,040	4,720	9.2
Exports ($ million)	250	435	11.5
Of Which: Export of air services	(77)	(138)	12.4
Export of shipping services	(182)	(311)	11.2
Capital Stock (IL. million)	7.7	12.7	10.5
Employed Persons (thousands)	72	86	3.5
Of Which: in aviation	(5,215)	(6,750)	5.2
in shipping	(11,200)	(12,750)	2.6
in land transport	(46,300)	(56,100)	3.9
Capital Stock per employed person, excluding roads (IL. thousand)	82	115	7.0
Capital stock per employed person, excluding roads, ships and planes (IL. thousand)	60	71	3.4
Output per employed person (IL. thousand)	40	50	4.6

TABLE J:
INVESTMENT IN TRANSPORT AND COMMUNICATIONS, BY DESTINATION, 1971 – 1975
(at 1970 Prices)

	1971–1975 (IL. Million)	1971–1975 (Percent)
Total	6667	100.0
Aviation and airports	619	9.3
Ships and ports	2338	35.1
Inland transportation (excluding roads)	1783	26.7
Roads	947	14.2
Postal Services and Communications	980	14.7

TABLE K:
OUTPUT OF CONSTRUCTION SECTOR, BY DESTINATION, 1970 – 1975
(IL. Million, at 1970 Prices)

	1970	1975	Total 1971–1975
Residential Construction	1,440	1,680	7,840
Nonresidential Construction	1,140	1,815	8,165
Total Construction	2,580	3,495	16,005
Maintenance and Repairs	670	1,345	5,400
Total Output	3,250	4,840	21,405
Employed persons (thousands)	96	108	
Equipment	77	74	380
Dwelling units completed	31,000	41,000	190,000
Average size of unit (M^2)	92.5	90.2	90.0
Construction area (M^2 thousand)	3,100	3,900	18,500
Of Which: New dwelling units	(2,870)	(3,700)	(17,100)